

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 AID-05
CIAE-00 EB-08 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 USIE-00 IGA-02
AGRE-00 NSC-05 SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02
L-03 PA-02 PRS-01 SSO-00 NSCE-00 INRE-00 /125 W
-----261725Z 054128 /41

O R 261648Z JAN 77
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC IMMEDIATE 9910
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA
USDOC WASHDC

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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JAN. 20 - 26TH

SUMMARY: INTEREST RATES EASED THROUGHOUT THIS WEEK WHILE
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GILTS CONTINUED TO SELL STRONGLY. THE FALL IN INTEREST
RATES IS HAVING LITTLE IMPACT ON STERLING AS THE BANK OF
ENGLAND REFILLS ITS FOREIGN EXCHANGE COFFERS WITH THE PRO-
CEEDS OF MARKET INTERVENTION AND OF A \$1.5 BILLION EURO-
LOAN. CONSUMER EXPENDITURE SHOWED A SMALL GAIN IN THE
FOURTH QUARTER OF 1976 OVER THE THIRD QUARTER. DECEMBER
RETAIL PRICE FIGURES SHOWED 18.4 PERCENT PER YEAR IN-

CREASES DURING THE FOURTH QUARTER WHILE HOURLY WAGES INCREASED AT AN ANNUAL RATE OF 4.7 PERCENT IN THE LAST SIX MONTHS OF 1976. UNEMPLOYMENT ROSE TO 1.448 MILLION IN JANUARY. END SUMMARY.

1. INTEREST RATES IN THE MONEY MARKET HAVE EASED THROUGHOUT THE WEEK. THIS MOVEMENT BROUGHT THE MINIMUM LENDING RATE DOWN 3/4 PERCENT TO 13-1/4 ON FRIDAY. STERLING CERTIFICATES OF DEPOSIT AND INTERBANK STERLING RATES BEGAN TO MOVE SIGNIFICANTLY LOWER ON FRIDAY AS WELL, THE THREE-MONTH RATE FOR THE FORMER FALLING 1-1/2 PERCENT AND THAT FOR THE LATTER 1-5/8 PERCENT ON THE WEEK ENDING JANUARY 25. THE CLEARING BANKS FOLLOWED SUIT, AND LOWERED THEIR BASE LENDING RATES BY 1 PERCENT TO 13 PERCENT ON TUESDAY. DURING LAST AUTUMN'S RISING INTEREST RATES. THE ADJUSTMENT IN BASE RATES HAD LAGGED THE INTEREST IN MONEY MARKET RATES, INDUCING "ROUND TRIPPING" AND APPARENTLY CONTRIBUTING TO THE HIGH GROWTH RATES OF THE MONEY AGGREGATES AT THAT TIME. THE BUILDING SOCIETIES WHICH HAD BEEN UNDER PRESSURE TO RAISE MORTGAGE RATES IN LINE WITH THE HIGH COST OF MONEY, HAVE ANNOUNCED THAT SUCH AN INCREASE WILL NO LONGER BE REQUIRED ALTHOUGH THEY HAVE INDICATED THAT A DECREASE IN MORTGAGE RATES IS OUT OF THE QUESTION.

WEDNESDAY, JANUARY 26, SAW SHARP REVERSALS IN SOME SEGMENTS OF THE MONEY MARKET. EARLY WEDNESDAY, TREASURY BILL RATES FELL SUFFICIENTLY TO FORECAST AN ADDITIONAL MINIMUM LENDING RATE DECLINE OF 3/4 PERCENT. LATER THE OVER NIGHT RATE ROSE TO MORE THAN 60 PERCENT, PRESUM-

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ABLY AS THE BANK OF ENGLAND FAILED TO OFFER SUFFICIENT ASSISTANCE TO THE DISCOUNT HOUSES. THE INCREASE IN VERY SHORT RATES OF INTEREST HAS GIVEN SOME MARGIN TODAY FOR "ROUND TRIPPING." THESE HIGH RATES OF INTEREST EASED TOWARD CLOSING AS THE BANK OF ENGLAND GAVE ITS TRADITIONAL SIGNAL THAT IT WOULD BE DISPLEASED TO SEE A LARGE FALL IN THE MINIMUM LENDING RATE (MLR) -- THAT IS IT PROVIDED 7 DAYS ASSISTANCE TO THE DISCOUNT HOUSES AT THIS WEEK'S MLR.

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SIL-01 DODE-00 PM-04 H-02 L-03 PA-02 PRS-01 IGA-02
AGRE-00 USIE-00 SSO-00 INRE-00 /125 W
-----261724Z 054138 /41

O R 261648Z JAN 77
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC IMMEDIATE 9911
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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2. GILT SALES CONTINUE TO BE STRONG. THE RECORD ISSUE.
THE 1.25 BILLION POUND 13-3/4 1993. SOLD BETWEEN 500 -
750 MILLION POUNDS BY DIRECT APPLICATION ON JANUARY 20.
THE GOVERNMENT BROKER SOLD PERHAPS AN ADDITIONAL 150 -
200 MILLION POUNDS SINCE THEN. MARKET SOURCES ESTIMATE
THAT PERHAPS ONE-HALF OF THE SALES AT APPLICATION WERE
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TO FOREIGN BUYERS. AND FOREIGN BUYER INTEREST IN ALL GOV-
ERNMENT ISSUES CONTINUED TO BE STRONG DURING THE WEEK.

3.
AS THE BANK OF ENGLAND IS REPORTED TO HAVE INTERVENED
SIGNIFICANTLY. MARKET SOURCES ESTIMATE THAT THE BANK OF
ENGLAND HAS TAKEN IN OVER ONE BILLION DOLLARS IN FOREIGN

EXCHANGE SINCE THE FIRST OF THE YEAR. THE DISCOUNTS ON FORWARD RATES OF EXCHANGE HAVE NARROWED MARKEDLY. BUT EVEN WITH THE ANNUALIZED COST OF THREE-MONTH FORWARD COVER REDUCED TO LESS THAN 8 PERCENT, THE DECLINE IN MONEY MARKET RATES LEFT STERLING RATES AT A COVERED DISADVANTAGE AGAINST EURODOLLAR RATES BY TUESDAY.

4. A \$1.5 BILLION LOAN TO THE U.K. ON VERY GOOD TERMS WAS ARRANGED BY A CONSORTIUM OF AMERICAN, GERMAN, AND U.K. BANKS. CHANCELLOR OF THE EXCHEQUER HEALEY EXPLAINED THE NEED FOR THE LOAN ON THE GROUNDS THAT THE U.K. WILL BE FACED WITH A CURRENT ACCOUNT DEFICIT IN 1977, THE LEVEL OF RESERVES IS BELOW HISTORICAL AND DESIRED LEVELS, AND THE TERMS OF THE CONSORTIUM LOAN WERE PARTICULARLY GOOD. (SEE LONDON 1262 AND LONDON 1304).

5. CONSUMER EXPENDITURE. CONSUMER SPENDING CONTINUED TO RISE IN THE FOURTH QUARTER. EXPRESSED IN 1970 PRICES CONSUMER EXPENDITURE WAS PROVISIONALLY ESTIMATED AT 8.955 BILLION POUNDS. A RISE OF 0.3 PERCENT FROM THE 8.928 BILLION FIGURE OF THE PREVIOUS QUARTER. AIDED BY A TAX REBATE. INFLATION-LINKED INCOME MAINTENANCE PAYMENTS AND A DECLINE IN THE SAVINGS RATIO. REAL CONSUMER SPENDING ROSE AT AN ANNUAL RATE OF 2.2 PERCENT BETWEEN THE FIRST AND SECOND HALVES OF 1976. IT IS UNLIKELY THAT THIS TREND WILL CONTINUE INTO 1977 AS REAL INCOMES WILL BE SERIOUSLY ERODED AS THE YEAR PROGRESSES. THE FOURTH QUARTER INCREASE IN REAL EXPENDITURE WAS ACCOUNTED FOR MAINLY BY INCREASED EXPENDITURE ON ALCOHOLIC BEVERAGES UNCLASSIFIED

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LARGELY IN ANTICIPATION OF HIGHER EXCISE TAXES.

6. RETAIL PRICES. RETAIL PRICES ROSE IN DECEMBER. THE INDEX OF RETAIL PRICES (JANUARY 1974 EQUALS 100) INCREASED BY 1.3 PERCENT TO 168.0 IN DECEMBER. THE INDEX CURRENTLY STANDS 15.1 PERCENT ABOVE ITS LEVEL OF DECEMBER 1975. ANNUALIZED PRICE INCREASESDURING THE FOURTH QUARTER ACCELERATED TO 18.4 PERCENT COMPARED WITH 9.2 PERCENT IN THE THIRD QUARTER. THE MARKED JUMP STEMMED LARGELY FROM THE IMPACT OF HIGHER WHOLESALE PRICES CAUSED BY THE DROP IN STERLING REACHING THE RETAIL LEVEL. THIS PROCESS SHOULD PERSIST INTO THE FIRST HALF OF 1977 LEAVING ANNUAL RATES OF INFLATION BETWEEN 15 AND 16 PERCENT FOR MOST OF THE PERIOD.

7. BASIC WAGE RATES. THE INDEX OF BASIC HOURLY WAGES (JULY 31, 1972 EQUALS 100) STOOD AT 221.5 IN DECEMBER, A RISE OF 0.4 PERCENT FROM THE NOVEMBER FIGURE OF 220.7. IN THE 6 MONTHS SBU DECEMBER. HOURLY WAGES HAVE IN-

CREASED AT AN ANNUAL RATE OF 4.7 PERCENT, THE LOWEST FIGURE IN OVER 3 YEARS. TO SOME EXTENT THIS DECLINE IS MISLEADING SINCE NEARLY 25 PERCENT OF THE MANUAL WORKERS COVERED BY THE INDEX HAVE NOT YET SETTLED. THEY ARE IN THE ENGINEERING UNION, AND THEIR WAGE LEVELS ARE AT THE UPPER END OF THE MANUAL WORKERS' SCALE. NEVERTHELESS, WAGE COSTS CONTINUE TO DECLINE WITH THE YEAR-ON-YEAR RATE OF INCREASE IN DECEMBER STANDING AT 11.7 PERCENT COMPARED WITH 17.8 PERCENT IN SEPTEMBER.

8. UNEMPLOYMENT. THE TOTAL JOBLESS FIGURE REACHED A POST-WAR RECORD IN JANUARY. AFTER 3 MONTHS OF INCOMPLETE DATA BECAUSE OF A STRIKE BY DEPARTMENT OF EMPLOYMENT STATISTICIANS. THE FIRST COMPLETE MONTHLY TOTALS INDICATE THAT UNEMPLOYMENT ROSE TO 1.448 MILLION (6.1 PERCENT). AFTER SEASONAL ADJUSTMENT AND EXCLUDING SCHOOL LEAVERS. THE FIGURE IS REDUCED TO 1.343 MILLION (5 7 PERCENT).

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CENT), A RISE OF 15,300 FROM THE DECEMBER FIGURE. THE TOTAL INCREASE SINCE OCTOBER IS JUST UNDER 40,000 COMPARED WITH A FIGURE 62,900 FOR THE PREVIOUS THREE-MONTH PERIOD. (FOR FURTHER DETAILS SEE SEPTTEL.)

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SIL-01 DODE-00 PM-04 H-02 L-03 PA-02 PRS-01 IGA-02
AGRE-00 USIE-00 SSO-00 NSCE-00 INRE-00 /125 W

-----261726Z 054235 /41

O R 261648Z JAN 77
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC IMMEDIATE 9912
INFO AMEMBASSY BONN

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9. EXCHANGE RATE AND GOLD

	EFFECTIVE		
	EXCHANGE	DEPRECIATION	GOLD
DATE	RATE (\$)	(PERCENT)	(\$)
1/19	1.7190	42.7	132-7/8
1/20	1/7155	42.8	133-1/8

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1/21	1.7165	42.9	131-7/8
1/24	1.7186	42.6	132-5/8
1/25	1.7195	42.4	134-1/8

CHANGE 1/18-1/25 UP 0.0035 NARROWED 0.5 UP 1

10. FORWARD DISCOUNT ON STERLING

DATE			
1/19	1.52	3.70	6.38
1/20	1.37	3.52	6.00
1/21	1.32	3.37	5.65
1/24	1.32	3.25	5.42
1/25	1.29	3.15	5.17

CHANGE 1/18-1/25 NAR. 0.23 NAR. 0.60 NAR. 1.43
 (ALL FIGURES IN CENTS)

11. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
1/19	4-3/4	5-1/2	5-3/4
1/20	5	5-1/4	5-5/8
1/21	5-1/8	5-1/8	5-3/4
1/24	4-7/8	5-1/8	5-3/4
* 1/25	4-7/8	5-1/4	5-3/4

CHANGE 1/18-1/25 1/8 UP 1/8 UNCHANGED

RATE DIFFERENTIAL

DATE

1/19	9-5/16
1/20	9-27/32
1/21	8-7/16
1/24	8-1/32
1/25	7-7/8

CHANGE 1/18-1/25 NARROWED 1-1/4

13. STERLING CERTIFICATES OF DEPOSIT

DATE

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1/19	14-25/32	13-15/16	13-1/16
1/20	14-15/32	13-39/64	12-3/4
1/21	13-3/4	13-1/16	12-1/4
1/24	13-17/32	12-19/32	12-17/32
1/25	13-5/16	12-1/2	11-29/32

CHANGE 1/18-1/25 DN. 1-11/32 DN. 1-1/2 DN. 1-10/32

14. THE MINIMUM LENDING RATE FELL BY 3/4 PERCENT TO 13-1/4 PERCENT AT LAST FRIDAY'S TREASURY BILL AUCTION. THE TREASURY BILL RATE FELL 0.5863 PERCENT TO 12.6694 PERCENT, AS THE 300 MILLION POUNDS TENDERED ATTRACTED RECORD BIDS OF 2,4431.03 MILLION POUNDS. THIS FRIDAY 300 MILLION POUNDS OF BILLS WILL BE TENDERED AS 400 MILLION POUNDS MATURE.

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Message Attributes

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Decaption Note:
Disposition Action: n/a
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Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
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Review Exemptions: n/a
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Subject: ECONOMIC DEVELOPMENTS FOR PERIOD JAN. 20 - 26TH SUMMARY: INTEREST RATES EASED THROUGHOUT THIS WEEK WHILE UNCLASSIFIED
TAGS: ECON, UK
To: TRSY STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/4d2c08d1-c288-dd11-92da-001cc4696bcc
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